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SUBJECT: EAST CHINA CIVIL AVIATION AUTHORITY ON U.S. TRANSPORT ISSUES, ECONOMIC DOWNTURN, AND NEW INFRASTRUCTURE

REF: A) SHANGHAI 60, B) SHANGHAI 58

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¶1. (SBU) Summary: During a February 4 courtesy call on East China Regional Administration of Civil Aviation of China (CAAC) Director General Xia Xinghua, the Consul General (CG) raised several industry issues, including Polar Air Cargo's request for an additional slot at Pudong Airport and UPS' hub status and summer flight schedule request. Xia said Polar Air could not shift its new slot to 10:45 pm because all new cargo flights are limited to departure between 2:00 and 6:00 a.m. UPS' summer schedule request was only filed just prior to the Lunar New Year, so Xia said it had not yet been processed. Xia declined to comment on UPS' hub status request, saying it is being handled by Beijing. The global economic downturn has hit international air cargo shipments hard, while domestic passenger demand is relatively stable. East China will use funds from China's stimulus package to augment plans already in place to upgrade and expand existing airports and build new airport facilities. Shanghai will be prepared to accommodate the influx of visitors to the 2010 World Expo. Xia welcomed cooperation with the Federal Aviation Administration on China's new regional jet, the ARJ 21. End Summary.

U.S. Express Delivery Concerns in East China

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¶2. (SBU) The CG queried the status of UPS' summer flight schedule request; Xia promised a prompt reply to UPS, explaining that the request had not yet been processed since it was first received on January 23, just prior to the LQ New Year Holiday, and the response usually is not issued until March 20 anyway. He recommended that in the future UPS apply directly to his office since East China CAAC can better communicate UPS' needs to CAAC in Beijing. East China CAAC is also more aware of available slots at Pudong than CAAC in Beijing. Xia declined to comment on dispute as to whether UPS has achieved hub status, saying only that the matter was handled by CAAC in Beijing.

¶3. (SBU) With respect to Polar Air's 10:45 p.m. slot request at Shanghai Pudong International Airport, Xia indicated that CAAC

has been concerned about growing air traffic and has thus mandated that new international air cargo departures and arrivals need to occur between 02:00 and 06:00 in the morning. This regulation applies to all air cargo flights in China. Xia made it clear that CAAC would not approve requests for cargo flights outside of the 02:00 and 06:00 time frame. However, he welcomed the opportunity to work with Polar Air to ensure they received a time slot between 02:00 and 06:00 in the morning. (Note: DHL owns 49 percent of Polar Air Cargo. Polar justifies that it qualifies for a time slot outside the stipulated air cargo departure times, since 40 percent of the freight is "express delivery" rather than strictly cargo. End Note.)

#### Passengers Up but Cargo Down

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¶ 14. (SBU) Xia said that cargo flights, particularly international cargo, have been hit hardest by the global economic downturn, because export orders have dropped. However, the domestic passenger market is relatively unaffected; the 2009 Lunar New Year holiday saw a 20 percent increase in air passengers over 2008. He was also optimistic that more Chinese passengers would travel abroad, saying the appreciated RMB has enticed more Chinese travel overseas for shopping trips.

#### Adding Stimulus Funds to Existing Plans for More Capacity

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¶ 15. (SBU) East China expects to build six new airports within the next few years, bringing the total to 44. East China CAAC is also implementing the ten supportive measures issued by CAAC to help the air transportation industry cope with the economic downturn (Note: On December 9, the CAAC announced ten measures that it would take to mitigate the effects of the global economic downturn on China's civil aviation. Measures include setting minimum ticket prices freezes and tightening the approval policy for airlines' purchasing of new aircraft, among

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other things. End note.) The agency will use funds previously earmarked for airport improvements, and also funds from China's newly introduced economic stimulus package, to upgrade and expand existing airports and build the new airports. According to Xia, there is also talk of a tax cut to assist the aviation industry.

#### Preparations for the World Expo

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¶ 16. (SBU) Xia expressed confidence that Shanghai's Pudong and Hongqiao Airports will be able to handle the expected increase in flights during the Shanghai 2010 World Expo. Hongqiao is scheduled to put its second runway into operation on March 28, 2010, bringing Shanghai's total number of runways to five. Construction on the new Hongqiao airport terminal expansion will be completed in 2009; the facility will begin operation in early 2010 (ref A). Xia noted that Mayor Han Zheng recently visited the Hongqiao Airport expansion project to assess its progress. It will be up to the airlines to ask for additional slots for additional flights during the Expo period, and East China CAAC would do its best to satisfy their needs. East China CAAC will establish a special team to organize all the flights during the Expo. (Note: The Shanghai Government estimates that 70 million people will visit the 2010 Shanghai World Expo, including 10 million foreigners. End note.)

#### Cooperation on China's New Regional Jet - the ARJ 21

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¶ 17. (SBU) Xia welcomed and appreciated the U.S. Federal Aviation Administration's cooperation and input on the ARJ- 21 passenger jet being constructed in Shanghai (See ref B for further details on the ARJ 21). He hoped that FAA certification would also be forthcoming. Per Xia's knowledge, there have been no cancelled plane orders; CAAC is encouraging domestic airlines to purchase the ARJ 21.

CAMP